

Tennessee Education Lottery

Estimates for Net Lottery Proceeds and After-School Program Funding



Presentation to the State Funding Board
Fiscal Review Committee Staff
Wednesday, December 8, 2010

Presentation Outline

- **FY08-09 and FY09-10:**
 - *Actuals – Points of Reference*
- **FY10-11:**
 - *Changes since March 2010*
 - *Assumptions for FY10-11*
 - *Revised Estimates (as of December 2010)*
- **FY11-12:**
 - *New Assumptions for FY11-12*
 - *Estimates (as of December 2010)*
- **Subsequent Years:**
 - *FY12-13, FY13-14, and FY14-15*
- **Addendum: Charts & Graphs**

FY08-09: Actuals – Point of Reference

	TOTALS	GROWTH Over FY07-08
Total Net Revenue	\$1,020,570,844	2.41%
Total Expenses	\$755,084,716	4.27%
Net Lottery Proceeds	<u>\$265,486,128</u>	(2.54%)
After-School Proceeds	\$14,666,222	6.86%
Total State Proceeds	<u>\$280,152,350</u>	(2.09%)

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FY08-09: Actuals – Point of Reference by Game Group

Revenue Source	Amount	% Change
Instant Games (Net)	\$768,918,741	6.58%
Cash 3 and Cash 4	\$81,704,613	-1.09%
Pick 5 & Lotto Plus	\$37,274,065	20.51%
Powerball	\$126,741,268	-15.22%
HotTrax Champions	\$792,807	-65.48%
Misc. Revenue	\$5,139,350	-14.22%
Total Net Revenue	\$1,020,570,844	2.41%
Total Expenses (74.0%)	\$755,084,716	4.27%
NET LOTTERY PROCEEDS (26.0%)	<u>\$265,486,128</u>	-2.54%
After-School Proceeds	\$14,666,222	6.86%
TOTAL STATE PROCEEDS	<u>\$280,152,350</u>	-2.09%

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FY09-10: Actuals – Point of Reference

	TOTALS	GROWTH Over FY08-09
Total Net Revenue	\$1,064,551,086	4.31%
Total Expenses	\$788,572,539	4.43%
Net Lottery Proceeds	<u>\$275,978,547</u>	3.95%
After-School Proceeds	\$12,893,630	(12.09%)
Total State Proceeds	<u>\$288,872,177</u>	3.11%

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FY09-10: Actuals – Point of Reference

By Game Group

Revenue Source	Amount	% Change
Instant Games (Net)	\$812,363,241	5.65%
Cash 3 and Cash 4	\$82,861,152	1.42%
Pick 5 and Lotto Plus	\$21,425,442	-42.52%
Powerball and MegaMillions	\$143,829,901	13.48%
Misc. Revenue	\$4,071,350	-20.78%
Total Net Revenue	\$1,064,551,086	4.31%
Total Expenses (74.1%)	\$788,572,539	4.43%
NET LOTTERY PROCEEDS (25.9%)	<u>\$275,978,547</u>	3.95%
After-School Proceeds	\$12,893,630	-12.09%
TOTAL STATE PROCEEDS	<u>\$288,872,177</u>	3.11%

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Changes since March 2010

- *FY09-10 closed better than expected*
- *FY09-10 growth mainly due to instant game growth and a slightly lower expense ratio (expenses as a percent of revenue)*
- *Instant game growth was 5.7% (March forecast = 4.5%)*
- *The additional 1.2% accounted for an extra \$8.9 million in sales (relative to the FRC median estimate in March)*
- *Using the net lottery proceeds ratio (25.9%) for FY09-10, generated approx. \$2.3 million more in net lottery proceeds*
- *Growth driven by success of higher price-point games*
- *Total Expenses were 74.1% of Total Net Revenue (March forecast = 74.4%)*
- *Each 0.1% increment accounted for \$1,064,551 in expenses*
- *The 0.3% difference generated approx. \$3.2 million more in net lottery proceeds*

Changes since March 2010

- *Net Lottery Proceeds were \$275.98 million (March forecast was \$270.10 million)*
- *Higher base for net lottery proceeds going into current fiscal year (FY10-11)*
- *More sales data for Mega Millions from which to forecast (in March 2010 only had 5 weeks of data)*
- *Pick 5 discontinued first week of October 2010*
- *Tennessee Cash launched first week of October 2010*
- *Only eight weeks of sales data for Tennessee Cash*

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Assumptions for FY10-11

- *No new multi-jurisdictional games (i.e. Powerball, Mega Millions)*
- *No matrix changes to multi-jurisdictional games*
- *At least one Powerball jackpot cycle above \$250 million*
- *At least one Mega Millions jackpot cycle above \$150 million*
- *No new Tennessee-exclusive online games*
- *Launch of at least one spotlight high price point instant game (typically a \$20 ticket with a higher payout ratio)*
- *No extraordinary changes to the retailer base*
- *No legislative changes*
- *Total Expenses = 74.4% of Total Net Revenue*
- *Net Lottery Proceeds = 25.6% of Total Net Revenue*

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***FY10-11: Revised Median Estimates –
as of December 2010***

	TOTALS	GROWTH Over FY09-10
Total Net Revenue	\$1,083,900,000	1.82%
Total Expenses	\$806,422,000	2.26%
Net Lottery Proceeds	<u>\$277,478,000</u>	0.54%
After-School Proceeds	\$13,000,000	0.82%
Total State Proceeds	<u>\$290,478,000</u>	0.56%

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***FY10-11: Revised Estimates – December 2010
by Range and Game Group***

Revenue Source	Lower	Mean	Upper
Instant Games (Net)	\$832,000,000	\$842,000,000	\$852,000,000
Cash 3 and Cash 4	\$81,400,000	\$82,400,000	\$83,200,000
Pick 5 and Tennessee Cash	\$16,500,000	\$17,500,000	\$18,500,000
Powerball and Mega Millions	\$133,000,000	\$138,000,000	\$143,000,000
Misc. Revenue	\$3,800,000	\$4,000,000	\$4,200,000
Total Net Revenue	\$1,066,700,000	\$1,083,900,000	\$1,100,900,000
Total Expenses (74.4%)	\$793,625,000	\$806,422,000	\$819,070,000
NET LOTTERY PROCEEDS (25.6%)	\$273,075,000	<u>\$277,478,000</u>	\$281,830,000
After-School Proceeds	\$12,000,000	\$13,000,000	\$14,000,000
TOTAL STATE PROCEEDS	\$285,075,000	<u>\$290,478,000</u>	\$295,830,000

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New Assumptions for FY11-12

- *No new multi-jurisdictional games*
- *No matrix changes to multi-jurisdictional games*
- *Powerball & Mega Millions remain mutually exclusive games*
- *No new TN-exclusive online games*
- *Launch of at least one spotlight high price point instant game*
- *At least one Powerball jackpot cycle above \$250 million*
- *At least one Mega Millions jackpot cycle above \$150 million*
- *No extraordinary changes to the retailer base*
- *No legislative changes*
- *Total Expenses = 74.7% of Total Net Revenue.*
- *Net Lottery Proceeds = 25.3% of Total Net Revenue*

***FY11-12: Revised Median Estimates –
as of December 2010***

	TOTALS	GROWTH Over FY10-11
Total Net Revenue	\$1,098,821,000	1.38%
Total Expenses	\$820,819,000	1.79%
Net Lottery Proceeds	<u>\$278,002,000</u>	0.19%
After-School Proceeds	\$13,000,000	0.00%
Total State Proceeds	<u>\$291,002,000</u>	0.18%

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***FY11-12 Estimates: December 2010
by Range and Game Group***

Revenue Source	Low	Median	<u>Upper</u>
Instant Games (Net)	\$850,720,000	<u>\$860,945,000</u>	\$871,170,000
Cash 3 and Cash 4	\$80,586,000	<u>\$81,576,000</u>	\$82,368,000
Tennessee Cash	\$13,000,000	<u>\$14,300,000</u>	\$15,600,000
Powerball and Mega Millions	\$133,000,000	<u>\$138,000,000</u>	\$143,000,000
Misc. Revenue	\$3,800,000	<u>\$4,000,000</u>	\$4,200,000
Total Net Revenue	\$1,081,106,000	<u>\$1,098,821,000</u>	\$1,116,338,000
Total Expenses (74.7%)	\$807,586,000	<u>\$820,819,000</u>	\$833,904,000
NET LOTTERY PROCEEDS (25.3%)	\$273,520,000	<u>\$278,002,000</u>	\$282,434,000
After-School Proceeds	\$12,000,000	\$13,000,000	\$14,000,000
TOTAL STATE PROCEEDS	\$285,520,000	<u>\$291,002,000</u>	\$296,434,000

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Subsequent Years

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Subsequent Years

- *FY12-13, FY13-14, and FY14-15*
- *Based on TELC information, sales growth for the lottery industry over the last four fiscal years was approximately 1.3% per year; beneficiary funding (net lottery proceeds) increased at an average rate of 0.4% per year over the last four fiscal years.*
- *Tennessee's four-year average sales growth rate was approximately 3.0%; the four-year average growth rate for net lottery proceeds was approximately 1.0% (both through end of FY09-10).*

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Subsequent Years

- Growth for these out years is very difficult to forecast due to variable factors such as:
 - *Changes to payout ratios*
 - *Matrix changes to jackpot based games*
 - *Structure changes to other online games*
 - *Legislative action*
 - *Jackpot cycles*
 - *Introductions of new instant and online games*
 - *Discontinued games*
 - *Changes to retailer base*
 - *Changes to budgeted advertising*

Subsequent Years

Due to numerous variable factors, it is prudent for budgeting purposes to utilize the more conservative industry averages to forecast these three out years as opposed to using the Tennessee averages.

	FY12-13	FY13-14	FY14-15
Total Net Revenue	\$1,113,105,673	\$1,127,576,047	\$1,142,234,535
Total Expenses	\$833,991,665	\$847,345,583	\$860,883,149
Net Lottery Proceeds	<u>\$279,114,008</u>	<u>\$280,230,464</u>	<u>\$281,351,386</u>
After School Funding	\$13,200,000	\$13,350,000	\$13,500,000
Total State Proceeds	<u>\$292,314,008</u>	<u>\$293,580,464</u>	<u>\$294,851,386</u>

Addendum

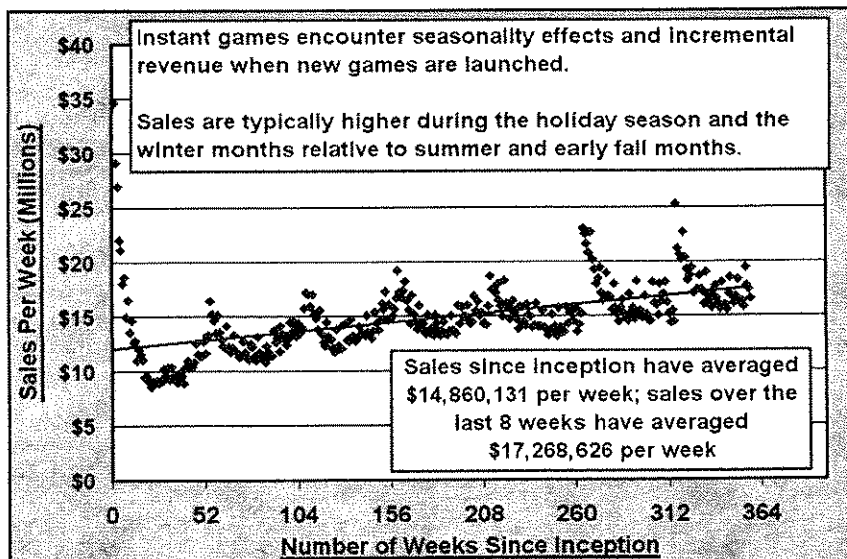
Charts & Graphs

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Instant Games – Since Inception

January 2004

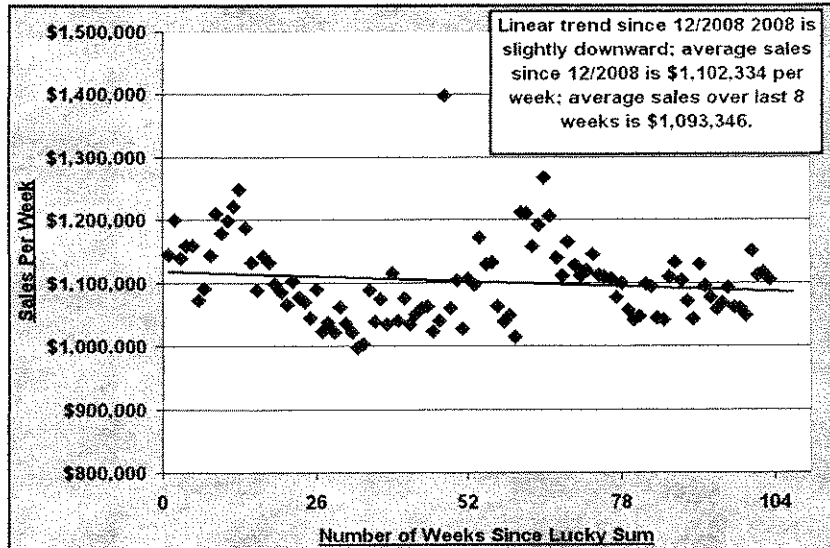


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Cash 3 – Since Lucky Sum Component

Game changed in December 2008

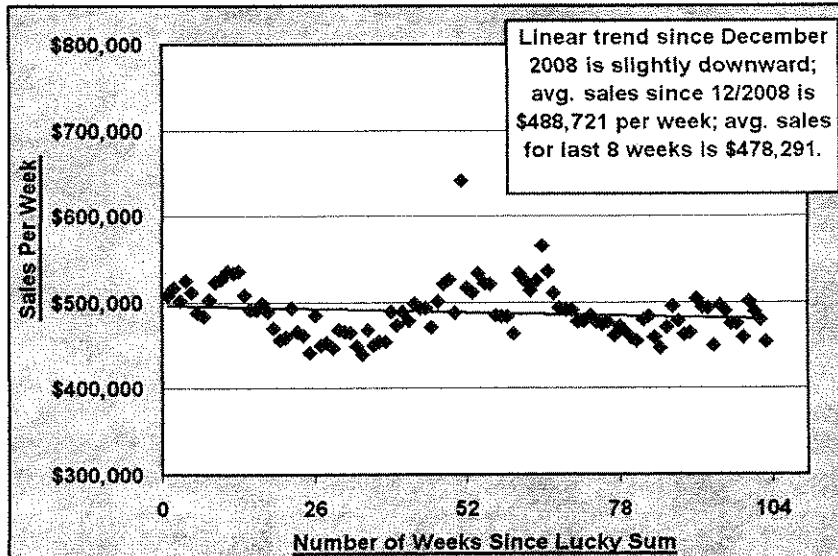


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Cash 4 – Since Lucky Sum Component

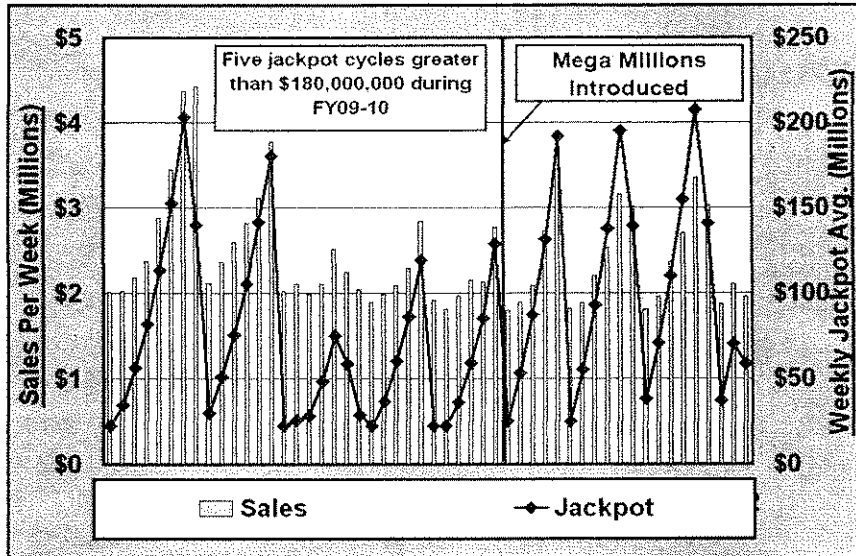
Game changed in December 2008



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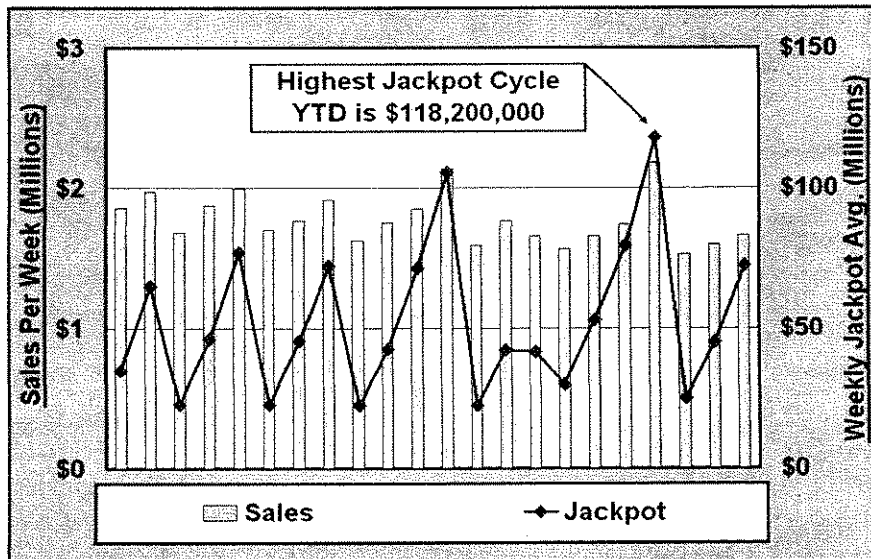
Powerball – FY09-10



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Powerball – FY10-11 - YTD

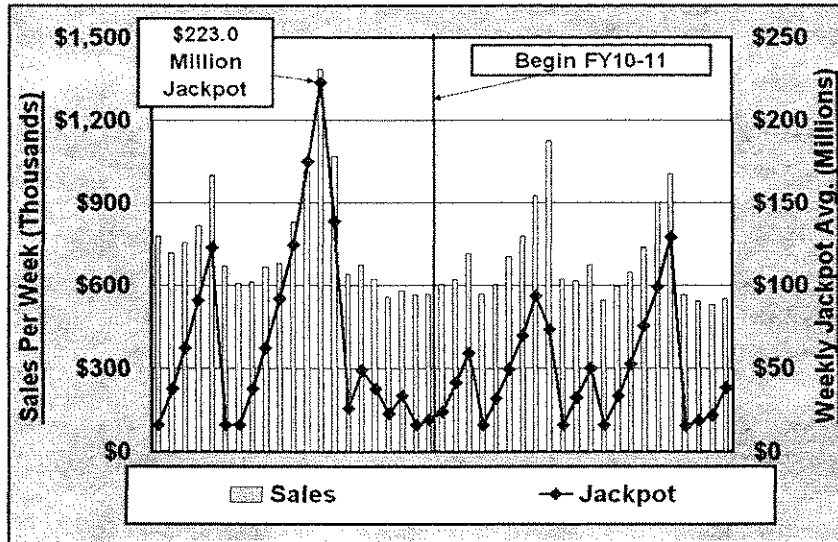


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Mega Millions – Since Inception

February 2010

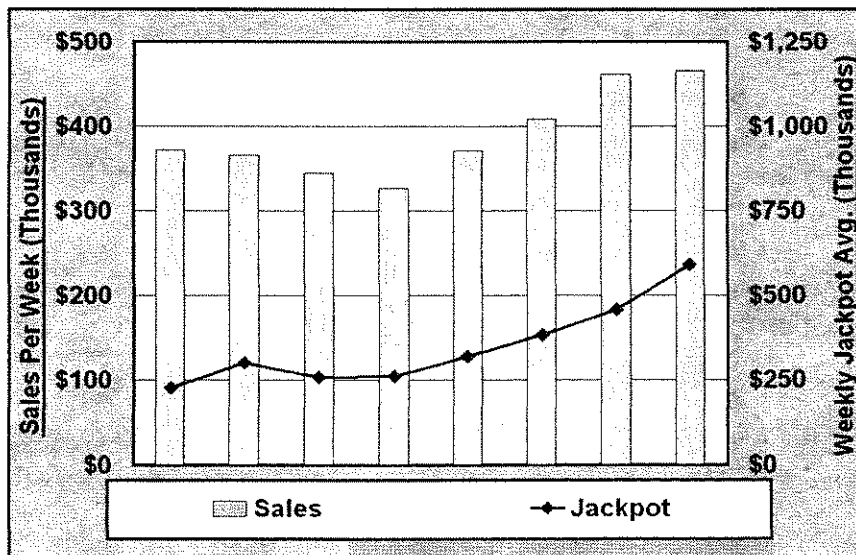


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Tennessee Cash – Since Inception

Only 8 weeks of data



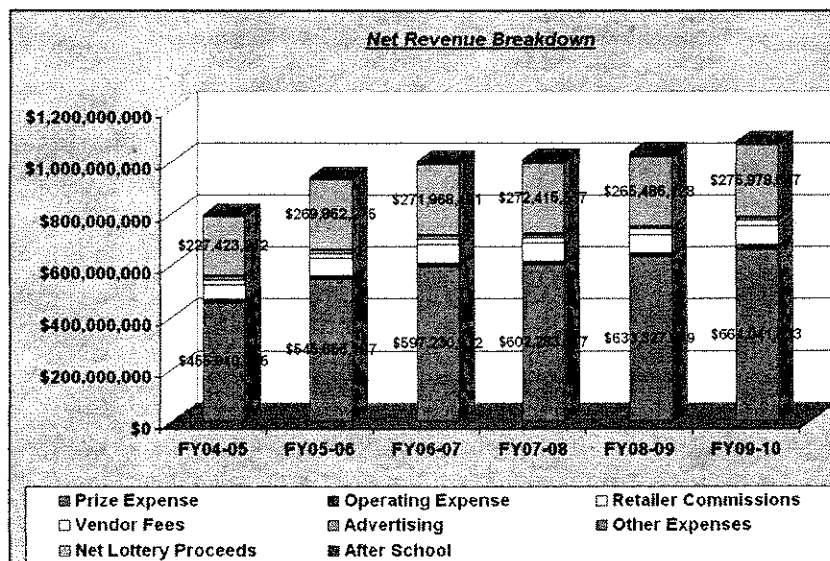
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Historical Breakdown of Revenue

	FY04-05	FY05-06	FY06-07	FY07-08	FY08-09	FY09-10
Net Revenue	\$787,997,704	\$933,439,051	\$991,024,026	\$996,573,536	\$1,020,570,844	\$1,064,551,086
Prize Expense	\$455,940,205	\$545,656,187	\$597,230,932	\$602,283,577	\$633,327,819	\$664,041,523
Operating Expense	\$15,610,877	\$15,530,559	\$14,526,653	\$14,620,429	\$15,595,907	\$15,139,680
Retailer Commissions	\$54,878,104	\$64,949,927	\$69,159,074	\$69,568,160	\$71,032,366	\$74,331,114
Vendor Fees	\$16,510,578	\$19,406,357	\$20,971,168	\$21,352,154	\$21,999,447	\$22,638,263
Advertising	\$14,673,792	\$14,110,779	\$13,015,185	\$11,680,873	\$10,482,818	\$9,377,574
Other	\$2,960,936	\$3,922,967	\$4,152,523	\$4,652,776	\$2,646,359	\$3,044,385
Total Expenses	\$560,574,492	\$663,576,776	\$719,055,535	\$724,157,969	\$755,084,716	\$788,572,539
Net Lottery Proceeds	\$227,423,212	\$269,862,275	\$271,968,491	\$272,415,567	\$265,486,128	\$275,978,547
After-School	\$6,872,556	\$7,392,700	\$10,436,394	\$13,724,640	\$14,666,222	\$12,893,630
Total Proceeds	\$234,295,768	\$277,254,975	\$282,404,885	\$286,140,207	\$280,152,350	\$288,872,177
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Historical Breakdown of Revenue



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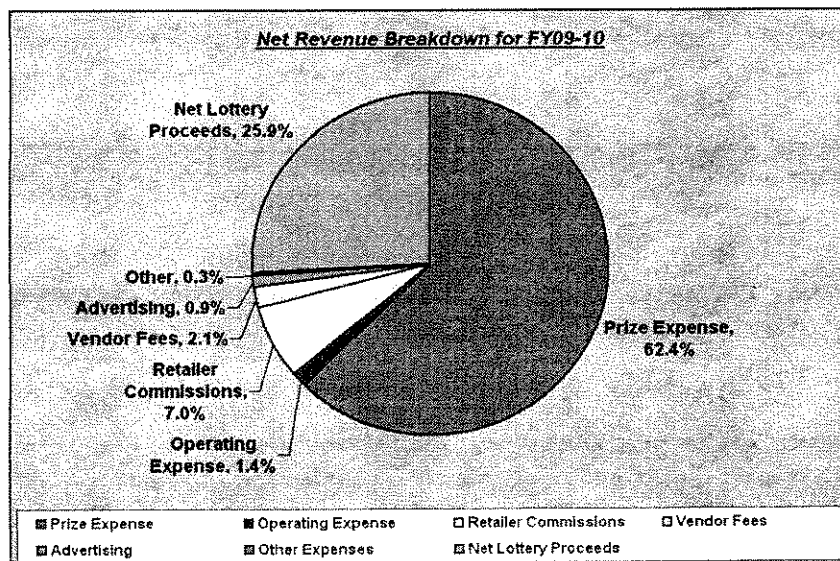
Expenses and Net Lottery Proceeds as a Percent of Total Net Revenue

	FY03-04	FY04-05	FY05-06	FY06-07	FY07-08	FY08-09	FY09-10
Prize Expense	55.2%	57.9%	58.5%	60.3%	60.4%	62.1%	62.4%
Retailer Commissions	7.1%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Vendor Fees	2.3%	2.1%	2.1%	2.1%	2.1%	2.2%	2.1%
Advertising	1.3%	1.9%	1.5%	1.3%	1.2%	1.0%	0.9%
Other Gaming Expenses	0.4%	0.4%	0.4%	0.4%	0.5%	0.3%	0.3%
Operating Expenses	2.5%	2.0%	1.7%	1.5%	1.5%	1.5%	1.4%
Net Lottery Proceeds	31.4%	28.9%	28.9%	27.4%	27.3%	26.0%	25.9%
Total Net Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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Actual Revenue Breakdown: FY09-10



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